PAPER B

Purpose: For Decision

Committee report

Committee	**FULL COUNCIL**
Date	**WEDNESDAY, 22 FEBRUARY 2017**
Title	**BUDGET AND COUNCIL TAX SETTING 2017/18 AND FUTURE YEARS FORECASTS**
Report to	**LEADER OF THE COUNCIL**

<u>EXECUTIVE SUMMARY</u>

1. As part of the Government's drive to repair the national public finances, Local Government has experienced unprecedented reductions in Government funding. Simultaneously, the Council has also experienced accelerating costs associated with essential care services. In October, the Council estimated that the combined impact of this was a forecast a Budget Deficit of £20m over the 3 year period 2017/18 to 2019/20. In response, the Council developed a Medium Term Financial Strategy (MTFS) to describe the pathway to meeting that financial challenge. This was supported by all parties and groups within the Council.

2. The MTFS described the financial challenge as the single biggest risk to sustainable public services on the Island. Accordingly, the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future.

3. The overall aim of the MTFS is as follows:

"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents

4. The Medium Term Financial Strategy has been designed to:

- Effectively manage and "Smooth out" the required savings enabling the Council to maximise its operational capacity to implement initiatives at pace which are aimed at increasing income / funding and reducing costs

- Improve the overall financial resilience of the Council and seeking to rebuild General Reserves over the medium term in order to guard against "financial shocks" and have the ability to respond to financial opportunities which can bring funding to the Island

- Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- Maximise the Capital Resources available to the Council; recognising that the targeted use of the Capital Programme can stimulate economic regeneration, jobs and housing with consequent positive effects on Council funding as well as reduced costs

5. In terms of Council spending, this is dominated by the essential care services. Children's Services and Adult Social Services account for 58% of the Council's total controllable budget and these Services have historically been protected. Whilst it is crucial to protect the services to the Council's most vulnerable residents, those Councils that have managed the most successfully through the austerity period are those that have also sought to tackle the cost base of these large services through both efficiencies and service changes. Councils that have not managed to achieve this have seen deeper cuts that have fallen disproportionately across all other important Council services.

6. Since the Council's forecasts were prepared in October 2016, the Council has received the provisional Local Government Finance Settlement for 2017/18 (i.e. Government Funding) and has undertaken a thorough review of both Council Tax income and Business Rate income for 2016/17 through to 2019/20. Additionally, the Council has undertaken a comprehensive review of its costs including inflation, interest rates and other cost pressures. The combined effect of this review has led to a larger Budget deficit over that 3 year period to £22m.

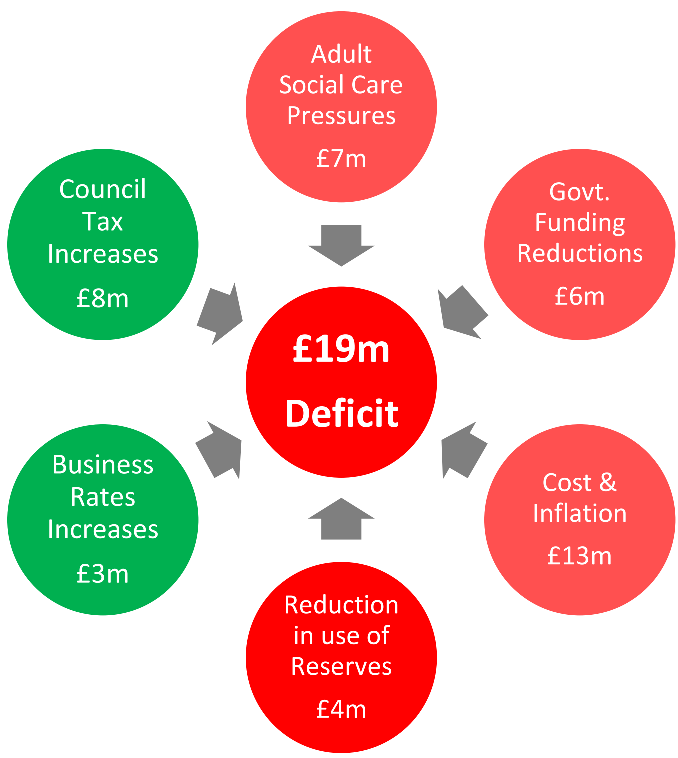
7. Despite the size of the Budget Deficit, it is still possible to maintain Savings Requirements for both 2017/18 and 2018/19 at £7.5m per annum, as set out in the MTFS, but only if the additional flexibility offered by Government to increase the Council Tax for Adult Social Care (known as the Adult Social Care precept) to 3% is taken and only if the Council also increases Council Tax by 1.99% for General Purposes (total Council Tax increase of 4.99%). There is general support from the Budget consultation with the public for an increase in Council Tax for Adult Social Care and the majority of those supporting an increase are also in favour of a 3% increase. The alternative to the proposed Council Tax increase is to increase the overall Savings Requirement by a further £727,200 for each 1% reduction in Council Tax.

8. The new Cross Party Administration have had just 2 weeks to consider and amend the proposals that have been developed under the previous Administration relating to the Budget for 2017/18, the Level of Council Tax to be applied and the Capital Investment proposals. Given the timescales, the New Administration have made few amendments and will leave any further potential Budget review of revenue and capital spending to the Administration formed in the new municipal year.

9. The savings proposals are broadly aligned with the response from the Budget Consultation with the residents and stakeholders. The proposals seek to continue to protect both Children's Services and Adults Social Care whilst still aiming to retain good quality sustainable public services across other portfolios. The average savings required across the Council for 2017/18 is 6.7%. The savings proposals for Children's Services are less at 4.7% and also less for Adult Social Care (in real terms after the passporting of £2.4m of additional funding) at 1.5%. As a necessary consequence spending reductions in other valued Portfolios have been required at levels significantly higher.

10. Looking forward beyond the considerations for the 2017/18 Budget and its associated £7.5m savings proposals, the next 3 year period after 2017/18 and commencing from 2018/19 to 2020/21 reveals a forecast deficit of £19m.

11. The £19m deficit for the new 3 year period is described below:



12. Aside from the normal levels of inflation which, as would be expected are largely covered by inflationary increases in Council Tax and Business Rates,

the primary drivers of the future deficit are the further funding reductions from Central Government (£6m) as they continue to bring the national public finances back into balance and Adult Social Care pressures (£7m) which include the likely withdrawal of a further £1m of funding from the Isle of Wight Clinical Commissioning Group on top of the £2.1m withdrawn in 2017/18

13. The future forecast is predicated on increasing the Adult Social Care precept by 3% per annum for 2017/18 and 2018/19 in addition to an increase of 1.99% per annum for General Purposes.

14. Given the overall financial challenge of the Council plus the likely withdrawal of funding by the CCG, the decision over whether to increase the Adult Social Care Precept to 3% in 2017/18 will be critical for Adult Social Care services and the wider health system on the Island.

15. To maintain alignment with the Council’s MTFS, it is proposed that the Council's future Savings Requirements for 2018/19 onwards are phased as follows:

£19m Deficit - Next 3 Years

2018/19	2019/20	2020/21
£7.5m	£7.0m	£4.5m

16. The proposed Capital Programme has been developed to maximise the contribution to the Council's overall MTFS. Importantly, given the likely scarcity of Capital Resources in the future, the proposals for the Capital Programme generally span a 3 year period providing vital resilience for Council Services. The Capital Programme seeks to:

- Ensure the medium term resilience of essential core services
- Transform services including investment into more appropriate and cost effective accommodation for Adult Social Care clients through Supported Living arrangements
- Provide investment to acquire strategic employment sites for the Island
- Support key transport infrastructure to improve access to Newport as well as contributing to overall business productivity
- The continued rationalisation of Council Buildings to reduce costs and improve efficiency
- Retain funding for likely and potential "match funding" opportunities of a regeneration nature which will lever in additional external funding for the Island

17. The combined suite of proposals set out in this report:

- Achieve the necessary £7.5m of savings, providing protection for essential care services and which are consistent with the response from the public consultation with residents and stakeholders

- Sets Council Tax at a level which is critical to securing Adult Social Care services on the Island

- Continues to enable a "smooth" savings profile in future years

- Provide the opportunity to supplement funding for the Transformation Reserve and future Capital Investment which are two of the key vehicles driving the MTFS and future savings

- Deliver Capital Investment targeted towards both savings and regeneration whilst continuing to provide investment into essential services

- Improve the financial resilience of the Council to respond to "financial shocks" or opportunities by gently building reserves over the next 3 years

BACKGROUND

18. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2017/18 and the associated level of Council Tax necessary to fund that Budget. The report also seeks approval to the Capital Programme for 2016/17 to 2021/22

19. The proposed Budget for 2017/18 has been prepared to align with the Council's recently approved Medium Term Financial Strategy (MTFS) which set a savings requirement of £7.5m for the financial year 2017/18 with an underpinning assumption of a 1.99% increase in Council Tax for General Purposes and a further 2.0% increase in Council Tax specifically for Adult Social Care (i.e. the maximum allowed for Adult Social Care). In total therefore, a 3.99% increase in Council Tax for 2017/18.

20. Since the MTFS was approved in October 2016, the Council has received the provisional Local Government Finance Settlement for 2017/18 which has worsened the Council's overall Budget Deficit for the period but has offered the flexibility to bring forward an additional 1% increase in Council Tax for Adult Social Care.

21. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2018/19 to 2020/21 (i.e. compared to the previous forecast covering 2017/18 to 2019/20, this forecast

now replaces the forecast for the previous 3 year period). In particular, this report sets out the following:

(a) The continued challenging financial climate facing the Council in 2017/18 and beyond and the consequential budget deficits that result

(b) A brief summary of the Medium Term Financial Strategy for achieving the necessary savings as approved in the report to Council in October 2016

(c) The Revised Revenue Budget for the current year

(d) The Local Government Finance Settlement for 2017/18 to 2019/20

(e) The Business Rate income for 2017/18 and future years

(f) The Council Tax Base and recommended Council Tax for 2017/18

(g) The proposed Revenue Budget for 2017/18

(h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2018/19, 2019/20 and 2020/21

(i) Estimated General Reserves over the period 2016/17 to 2020/21

(j) The forecast Collection Fund balance as at 31 March 2017 for both Council Tax and Business Rates

(k) The statement of the Section 151 Officer on the robustness of the budget in compliance with the requirements of the Local Government Act 2003.

(l) The Capital Programme for 2016/17 to 2021/22

ECONOMIC & FINANCIAL CONTEXT

22. The Medium Term Financial Strategy approved by the Council in October 2016 described the national financial context within which funding to Local Government has reduced since 2011/12. Over the past 5 years (since 2011/12), the Isle of Wight Council has faced Government funding reductions of £35m as well as having to accommodate other inflationary and unavoidable cost pressures which, taken together, has seen the Council make overall savings over the last 5 years of over £60m. This represents circa 32% of the Council's controllable spending.

23. Additionally, it is recognised that Children's Services and Adult Social Care account for 58% of the Council's total controllable budget and these Services have historically received significant protection from savings over the period. Whilst it is crucial to protect the services to the Council's most vulnerable residents, those Councils that have managed the most successfully through the austerity period are those that have also sought to tackle the cost base of these large services through both efficiencies and service reductions. Importantly, significant savings are achievable without compromising care needs and outcomes. Councils that have not managed to achieve this have seen deeper cuts that have fallen disproportionately across all other important Council services.

24. The Medium Term Financial Strategy included an overall forecast Budget Deficit for the period 2017/18 to 2019/20 of £20m and a profile of savings to meet this deficit as follows:

£20m Deficit - Current 3 years		
2017/18	2018/19	2019/20
£7.5m	£7.5m	£5m

25. This financial challenge is seen as the single biggest risk to sustainable public services on the Island. Accordingly the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Services for the future.

26. In order to meet the financial challenge, the Council set out its overall Aim of the Medium Term Financial Strategy as:

"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents

27. The Strategy placed a much stronger emphasis on improving the economy and growing the income and funding base[1] of the Council and centred of the following:

1 The funding base comprises Business Rates, Council Tax and Government Grant

- Extending the overall planning horizon from a 2 year strategy to a 5 year strategy and "smoothing out" the required savings so that they can be addressed in a more planned and managed way, "buying time" for alternatives to service reductions to take effect

- A much stronger emphasis on creating a prosperous and sustainable Island community built on the pillars of regeneration, growth and productivity, which in turn will have a positive impact on the Council's funding base as well as reducing the need for Council services

- Become a more entrepreneurial and commercial Council as a means to generate income and avoid service reductions

- A stronger drive to Public Service Transformation in order to improve services and outcomes for service users as well as reducing duplication and cost

- Addressing the unique 'Island Factors' of, self-sufficiency, premium pricing and dislocation, which permeate through the whole financial system for the Council and impact on the costs of providing local authority services

- Improving the overall financial resilience of the Council over the medium term including:

    - ➢ Repairing the level of General Reserves over the medium term to enable the Council to respond to opportunities that may arise which require funding, or to be sufficiently resilient to "financial shocks" which would otherwise result in sharp and drastic cuts to public services

    - ➢ Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes and that financial barriers to such opportunities are removed by establishing a Transformation Reserve

28. The 6 Themes of the Medium Term Financial Strategy themes are described below:

SHORT TERM

Theme 1 **Create Financial and Operating Capacity to Transform**
Theme 2 **Increasing Efficiency & Effectiveness**

SHORT TO MEDIUM TERM

Theme 3 **Entrepreneurial, Commercial and Collaborative Activities (with managed risk)**
Theme 4 **Withdraw from or offer Minimal Provision for Low Impact Services**
Theme 5 **Improving the Island Economy**

MEDIUM TO LONGER TERM

Theme 6 **Public Service Transformation**

29. Since the MTFS was approved in October 2016, the Council has moved quickly to appoint a Director and Assistant Director of Regeneration, undertake research into key sites on the Island that are most suitable and deliverable for new housing and employment and use this to develop and approve a Regeneration Strategy.

REVISED BUDGET 2016/17

30. The Council revised its Budget in October 2016 as part of the approval of the MTFS. Savings requirements for the year were reduced to £8.7m and a number of non achievable savings targets removed resulting in a Revised Budget of £145,115,300.

31. The Council is currently forecasting an overall overspend against the Revised Budget of £0.75m. The most critical factor driving this forecast overspend is the withdrawal of funding by the Clinical Commissioning Group (CCG) of £1.4m (but £3.1m in total by 2018/19) from its support to Adult Social Care through the Better Care Fund. The Council is in continual dialogue with the CCG regarding this reduction in funding and the future impact that this could have for Adult Social Care and the wider health services on the Island. In 2018/19 it's therefore likely that the CCG will only be passporting the minimum amount required to the Council under the BCF provisions.

32. Whilst there remains a forecast overspend of £0.75m for 2016/17, the Council continues to press the CCG to reconsider its position given the likely future service implications across the whole health system as well as the potential increase in costs. At this stage it is proposed to leave the Revised Budget intact at £145,115,300.

THE LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2017/18 TO 2019/20

33. The Council resolved to accept the Government's 4 year Settlement in October 2016 which has now been accepted by Government. Whilst

providing some certainty of future Government Funding, the funding reductions for the Council remain significant and challenging.

34. The Government published the provisional Local Government Finance Settlement 2017/18 in December 2016 and it is in line with the accepted 4 Year Settlement.

35. In overall terms, the Council expects a further reduction in Government Funding over the three year period 2017/18 to 2019/20 of £13.7m representing a funding reduction of 36%. Of most significance are the reductions in Revenue Support Grant and the New Homes Bonus. There is a rise in "Other Grants" totalling £3.3m, the main reason for this is additional funding for Adults Social Care through a "One -Off" Adult Social Care Grant in 2017/18 of £0.8m (this is explained further below) and the "Improved Better Care Fund" allocations which commence slowly at £57,000 for 2017/18 and rise to £4.1m in 2019/20. This is all summarised in the table below:

Funding Stream	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**Total Reduction £m**
Revenue Support Grant	19.2	12.7	8.6	4.4	**(14.8)**
New Homes Bonus	3.9	3.0	2.0	1.7	**(2.2)**
Other Grants[2]	15.2	14.9	16.1	18.5	**3.3**
Total Government Grants	**38.3**	**30.6**	**26.7**	**24.6**	**(13.7)**

36. Whilst the Revenue Support Grant forms part of the 4 Year Settlement, the New Homes Bonus and the Other Grants do not and therefore these funding streams will remain a risk for the Council in future years.

37. The overall impact of the provisional Local Government Finance Settlement on the Council's future forecast Budget Deficit over the 3 year period to 2019/20 is a deterioration of £1.1m and this has been factored into the new future financial Forecast and Savings Requirements as described from paragraph 83 in this report.

38. Whilst the overall reduction of funding to 2019/20 amounting to £13.7m is a serious concern to the Council, it had been largely predicted within the Council's financial forecasts and is the primary reason for the future Savings Requirements of the Council. The deterioration against the Council's forecasts has arisen almost entirely as a result of the change in the New Homes Bonus scheme.

39. The new scheme for the New Homes Bonus was intended to "sharpen the incentive" but also to reduce the overall amount available by £593m nationally (almost 40%) and re-direct funding towards Adult Social Care through the "Improved Better Care Fund" and this was to be phased but commencing slowly from 2017/18.

[2] Excludes Highways PFI Grant, Prison Social Care Grant, Strengthening Families Grant and Staying Put Grant

40. The proposed scheme now announced is summarised below:

- A threshold of a 0.4% increase in new homes (or "deadweight" and equivalent to 258 Band D equivalent homes) before any New Homes Bonus (NHB) will be paid (i.e. 0.4 % growth will need to be achieved before any NHB funding will be paid)

- A reduction in the length of time payments will be made from 6 years to 5 in 2017/18 and then a further reduction to 4 years from 2018/19 and thereafter

- From 2018/19 payments will not be made for residential development that was allowed on appeal

The introduction of the 0.4% threshold ("deadweight") is the main factor which has caused the deterioration in the Council's forecasts and is at a level considerably higher than the level the Government initially consulted upon.

The new scheme has sought to make the reductions in the New Homes Bonus earlier than planned so that funding can be directed to Adult Social Care Authorities. The intent being to reduce funding across all Local Authorities and re-distribute in to Adult Social Care Authorities only with the policy intention that Adult Social Care Authorities will be better off.

The "deadweight" threshold is a concern to the Isle of Wight where there is more limited potential for housing growth and therefore to exceed the 0.4% threshold. It does however, re-inforce the need to stimulate high quality employment on the Island as a mechanism for increasing demand for housing growth.

41. Other key announcements as part of the provisional Local Government Settlement are:

- Overall Funding - There is no new money in the settlement compared with that announced in the Comprehensive Spending Review in December 2015

- Revenue Support Grant - There is no change to the distribution methodology for 2017/18

- Council Tax:

  - The basic referendum principle of a 2% increase is confirmed and Government will not introduce referendum principles for parish and town councils in 2017/18

- Adult Social Care Precept - More flexibility has been allowed to fund Adult Social Care pressures by bringing forward the ability to raise Council Tax for the Adult Social Care Precept earlier than set out in the Comprehensive Spending Review. Options now include:

  i) 2% per annum for the next 3 years (as originally allowed in the Comprehensive Spending Review)
  ii) 3% for 2017/18, 3% for 2018/19 and Zero for 2019/20
  iii) 3% for 2017/18, 2% for 2018/19 and 1% for 2019/20
  iv) Other permutations adding up to 6% over 3 years but "back loaded"

- The Government will publish a response to the Fair Funding review consultation (i.e. review of the 'needs element' embedded with the Revenue Support Grant and the Business Rates Retention system) in the new year. This is to be implemented in 2019/20 as part of the overall move to the 100% business rates retention system.

42. The Council has made a formal response to the provisional Local Government Finance Settlement making the following key points:

- The urgent need to accelerate the Fair Funding Review which needs to give due regard to the "Island Factors"

- The inappropriate and continued use of an outdated funding methodology for Adult Social Care which uses deprivation and income as key drivers for funding rather than the over 65 population - Isle of Wight over 65 population significantly exceeds the national average at 27% versus 18%

- The general approach to Adult Social Care funding is inherently unfair across Local Authorities and benefits those with stronger Council Tax Bases

- The negative impact that the New Homes Bonus "deadweight" factor will have on the Island, given its unique Island Factors which inhibit its ability to grow the housing base

43. Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government.

44. The final grant settlement figures should be available by early February, it is not expected to vary significantly from the provisional settlement and it is recommended that any variation should be accommodated by a transfer to or from General Reserves.

BUSINESS RATES - 2017/18 & FUTURE FORECASTS

45. The Retained Business Rates system is complex and subject to a significant degree of inherent risk. In broad terms, the system is characterised by a complex formula which includes the following:

i) Retention of 50% of all business rates received and which is affected by the value of successful appeals, the number of mandatory reliefs (e.g. charitable relief) and the overall collection rate (i.e. how much is uncollectable and written off)

ii) Increased by a fixed amount "top up" which increases annually by the rate of inflation

iii) Compensation through S.31 Grants for national government initiatives which have the effect of reducing Business Rates to the Local Authority such as business rate capping for small businesses

iv) A "safety net" set at 7.5% below a pre-determined baseline[3] below which retained Business Rates will not fall (set at £28.3m for 2017/18)

46. In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.

47. Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably, this however will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.

48. For 2017/18, Retained Business Rates are estimated at £19.5m which includes a deficit relating to previous years of £0.9m arising from greater than anticipated losses due to appeals as well as £0.3m reduction due to the "spreading" of previous years' losses. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility).

49. The estimation of business rate receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the

[3] Known as the Business Rates Baseline, set in 2013/14 and increased by inflation each year

Council maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.

COUNCIL TAX - 2017/18 & FUTURE FORECASTS

Council Tax Amount 2017/18

50. Council Tax currently represents almost 49% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.

51. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,382.78 (excluding parish precepts), of which £1240.15 (89.7%) is the Isle of Wight Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, just 52% of all properties are subject to the full level of Council Tax.

52. The provisional Local Government Finance Settlement for 2017/18 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 2%. Any increase beyond the 2% threshold can only be implemented following a "Yes" vote in a local referendum.

53. In addition, the level of Council Tax increase for the Adult Social Care precept for 2017/18 and 2018/19 has been confirmed at 3% (compared with the announcement in the Comprehensive Spending Review in December 2015 of 2% for each year). Whilst the threshold for 2017/18 and 2018/19 has been increased, the overall increase over the 3 year period to 2019/20 remains intact. Therefore, it is for Local Councils to agree how to profile the available 6% increase over the 3 year period 2017/18 to 2019/20 within an overall cap of 6% and an annual cap of 3% (for example 2%, 2% and 2% or alternatively 3%,3% and 0%).

54. The additional flexibility to bring forward the Council Tax increases for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage as well as the demographic pressures from general aging and "living longer" population.

55. As will be described later within this report, as a consequence of both increased costs and the deterioration in forecast funding arising from the Local Government Finance Settlement, the Council's overall financial position over the next 3 years has deteriorated by £2m from a forecast deficit of £20m to a forecast deficit of £22m. The key driver for the change in the Council's forecast costs is the potential but very real prospect of the withdrawal of a further £1m (overall total £3.1m) of funding by the CCG for Adult Social Care.

56. To maintain the Savings Requirements at £7.5m each year for the next 2 years, the Council will need to increase the level of Council Tax by 1.99% for

General Purposes as well as taking the additional flexibility to increase the Adult Social Care precept by 3% in 2017/18. The alternative will be to increase the overall Savings Requirement by a further £727,200 for each 1% reduction in Council Tax.

57. Both the option to increase the Adult Social Care Precept to 3% in 2017/18 and the extent of the withdrawal of £3.1m of funding from the CCG will be critical for Adult Social Care services and the wider health system on the Island.

58. Given the extent of the Council's financial challenge to find £7.5m of savings and the very real potential for further significant reductions to Adult Social Care, it is proposed that:

i) The Council Tax for General Purposes be increased by 1.99%, representing 47p per week for a Band C tax payer

ii) Adult Social Care precept be increased by 3% for 2017/18, representing 72p per week for a Band C tax payer.

59. For similar reasons, the Council's future forecasts for the period 2018/19 to 2020/21 have been estimated on the following basis:

i) General Purposes - 1.99% rise each year

ii) Adult Social Care Precept - 3.0% rise in 2018/19, 0% for 2019/20 and thereafter

Council Tax Base 2017/18

60. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **52,137.1** for 2017/18, having taken account of the Council decisions on 18th January 2017 relating to the Local Council Tax Support Scheme and the changes to Council Tax discounts and exemptions for the coming year.

Collection Fund Balance (Council Tax Element) 2016/17

61. The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:

- Isle of Wight Council (90.1% share)
- Hampshire Police & Crime Commissioner (9.9% share)

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

62. For 2016/17, it is estimated that there will be a surplus on the Collection Fund of £555,124 which will be shared in proportion to the 2016/17 precepts and distributed to the preceptors as follows:

COLLECTION FUND SURPLUS - 2016/17		
Preceptor	**Distribution**	
	£	**%**
Isle of Wight Council	500,000	90.1%
Hampshire Police & Crime Commissioner	55,124	9.9%
Total Surplus 2016/17	**555,124**	**100.0%**

The Isle of Wight Council Share of the surplus of £500,000 is factored into the overall Council Tax income for 2017/18.

Total Council Tax Income 2017/18 & Future Years

63. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2017/18 is estimated at £76,873,414.

64. As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £84,677,000 by 2020/21 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 4.99% for 2018/19 and 1.99% per annum thereafter

- Modest growth in the Council Tax Base of 0.5% per annum over the period

REVENUE BUDGET 2017/18

65. The overall aim of the Council's Medium Term Financial Strategy is to match "In Year" spending with "In Year" income and funding over the medium term with the use of General Reserves used to "smooth out" any necessary fluctuations between years.

66. The Council's approved MTFS also described the need to repair its General Balances over time. This is vital if the Council is to stabilise its financial position, have the ability to respond to any potential "financial shocks" without resorting to quick and severe service reductions but also have the financial capacity to be able to fund opportunities as they arise. As approved in the Council's MTFS, the proposals within the Budget for 2017/18 will provide for General Reserves to be above the minimum level in order to be available to "smooth out" future years savings to more manageable levels.

67. The Council consulted the residents, businesses and other stakeholders of the Isle of Wight on its overall Budget Strategy through December and

January. The consultation opened on iwight on Thursday 22nd December and ran until Monday 23rd January and received 862 responses.

68. The survey's aim was to establish whether the public agreed with the Council's proposed strategy and sought responses to questions relating to productivity, working with others, investment and regeneration, growth and improvement and increasing the Council Tax.

69. The main conclusions arising from the consultation where the majority of respondents agree or strongly agree are:

- The Council should seek to generate income to pay for services rather than make cuts
- The Council should seek to secure investment and funding for business growth
- The Council should work with others to improve services and reduce costs
- The Council should invest in the island economy to grow business and create jobs
- The Council should use technology to improve services and save money
- Residents' leading priority for spending is Regeneration and Development, being over 30% more popular than the next highest priorities of Children's Services, Adult Social Care and Housing
- The majority of respondents (60%) were in favour of paying extra Council Tax for Adult Social Care. Of those willing to pay extra, the majority (i.e. 43% and 25% of all respondents) supported an increase of 3%.

70. A series of consultative meetings with stakeholders from the voluntary and business sectors, the unions and town and parish councils were held during January. A public meeting on the 16 January at Medina theatre attracted an audience of approximately 50 people.

71. The strong view of the voluntary sector was that the Council needed to do more in respect of health and social care integration (especially in the area of joint commissioning) as a means of improving outcomes for people and making best use of its resources. The sector feels it has a central role to play in this process and is looking to work in partnership with the Council to find innovative ways to contribute to this activity.

72. The business sector welcomed the Council's approach to regeneration and growth and is keen to work closely with its new regeneration team in order to stimulate the economy. It remains concerned about how inward investment can be encouraged by the Council if it acts in contravention to its positive messages.

73. The town and parish councils represented were willing to consider taking more responsibility for local services but were keen to see the Council able to act much more quickly in taking decisions to enable this to happen. The

enforcement of planning conditions remains a particular issue for these local councils.

74. Concern about the future of schools funding and the cost and the strategic partnership with Hampshire County Council were an issue for the unions as well as the need for the Council to think and act much more commercially and entrepreneurially in order to generate income to protect service rather than 'cut' spending (the preferred terminology of at least one representative).

75. The high cost of Adult Social Care and how the Council could address it, the strategic partnership with Hampshire County Council (in terms of costs and what next), the Council's approach to regeneration and debt management and its long term viability were the key issues raised and discussed at the public meeting. The primary concern amongst those attending was that unless the Council (and government) can find alternative ways to manage its social care spending then the likelihood of it being able to maintain the services enjoyed by the majority of residents (and a key attraction for visitors and businesses) would be very limited.

76. The full results of the Budget Consultation can be found at:

https://www.iwight.com/council/OtherServices/Financial-Management/Budget-Consultation

77. The proposed Budget for 2017/18 has been prepared with both regard to the Budget Consultation exercise and to include all of the decisions taken as part of the approved MTFS (e.g. savings from the Debt Repayment holiday, reinstatement of the Operating Model savings, additional Regeneration capacity and additions for unachievable savings). The proposed Budget for 2017/18 also includes the following:

- Funding reductions from Government of £7.7m
- Funding for Adult Social Care via Passporting of the Adult Social Care Precept (3%) of £2.2m plus a further £0.2m for the costs of implementing the Care Act requirements
- Inflationary costs and other cost pressures amounting to £4.6m
- Proposed Savings of £7.5m as set out in Appendix C
- An increase in Council Tax of 1.99% for General Purposes amounting to £1.4m
- An increase in the Adult Social Care Precept of 3.0% amounting to £2.2m
- Increase in Retained Business Rates of £2.5m
- The use of General Reserves of £3.6m

78. The proposed Budget for 2017/18 accommodating the Council's proposed £7.5m of savings, funding changes and other cost changes as described above is £150,486,700. It represents an increase of £5,371,400 (3.7%) compared to the Revised Budget for the current year of £145,115,300.

79. Noting also the response from the Budget Consultation which generally suggests that services to the vulnerable should receive some measure of protection, the savings proposals provide significant protection from savings for Children & Education at 4.7% of net spending versus the average saving of 6.7% across all areas. Additionally, the savings proposed for Adult Social Care are less than the average but importantly this is measured before the additional funding of £2.4m is passported, the net saving therefore is £698,000 representing a real reduction of just 1.5% of net spending. As a necessary consequence, savings from other Portfolios are proportionally higher and significantly higher in some cases. The savings proposals for 2017/18, by Portfolio / Service, are set out below for approval.

Portfolio / Service	**Savings Proposal**	
	£	**% Budget**
Adult Social Care & Public Health (Adult Social Care)*	3,084,100	6.6%
Adult Social Care & Public Health (Public Health)	397,000	5.8%
Contract Management & Car Parking**	889,300	20.8%
Environment, Fire & Local Engagement (Environment)	14,000	0.7%
Environment, Fire & Local Engagement (Fire & Rescue Service)	350,000	5.3%
Planning, Tourism, Recreation & Culture	437,100	7.3%
Regeneration, Housing & Transport	103,000	9.6%
Resources & Children's Services (Children's Services)	1,196,200	4.7%
Resources & Children's Services (Resources)	1,029,300	8.3%
Grand Total	**7,500,000**	**6.7%**

*** Excludes the additional funding passported through the Adult Social Care Precept of £2.2m and additional funding for the Care Act of £0.2m.**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 3.8%**

80. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £7.5m (or 6.7% reductions in net spending) on the back of making over £60m in savings and efficiencies over the past 6 years. The risks are unavoidable. For those risks with the highest likely impact such as Children's Services and Adult Social Care, mitigation strategies are being developed.

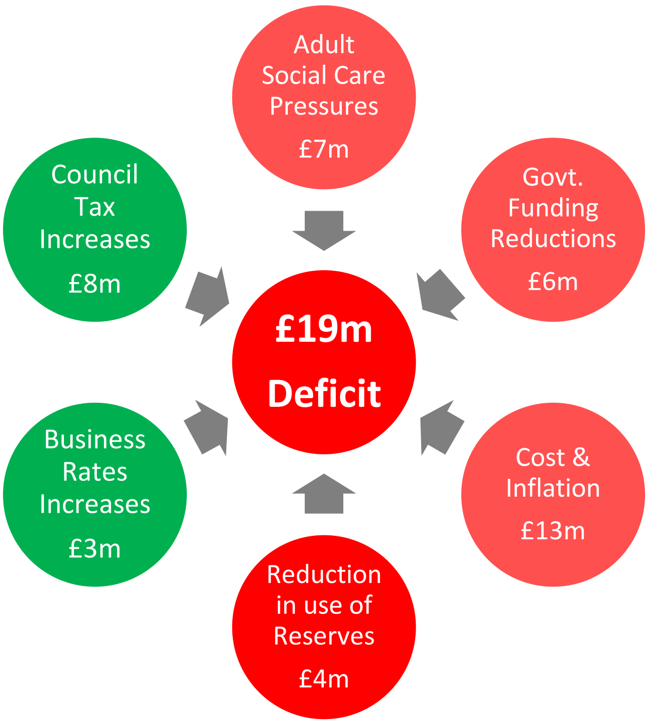
81. It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the individual Budget for each Portfolio / Service. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio / Service to meet its own Budget. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely

impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix C and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Service.

82. For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix C with alternative proposal(s) amounting to the same value.

REVENUE FORECASTS 2018/19 TO 2020/21

83. A new medium term forecast has now been completed to cover the period 2018/19 to 2020/21 (i.e. after the savings relating to 2017/18 have been made and incorporating the further financial year of 2020/21). All of the financial assumptions have been comprehensively revised and a savings requirement for the new 3 year period has been estimated at £19m and is summarised below:



84. It is important to recognise that this forecast extends beyond the current Comprehensive Spending Review and 4 Year Settlement periods and moves to the year in which the Local Government funding system changes to 100% Business Rate Retention and the simultaneous implementation of the Fair Funding review. Consequently, there remains a significant level of uncertainty surrounding the forecast for 2020/21.

85. The most significant assumptions in the medium term future forecasts for the period 2018/19 to 2020/21 are described below:

- Reductions in overall general Government funding of £5.7m over the whole period, representing 18.5%

- A 4.99% increase in Council Tax for 2018/19 followed by increases of 1.99% per annum thereafter plus a 0.5% increase in the Tax Base per annum for each of the 3 years, in total yielding £7.8m

- An underlying zero growth assumption for changes in Business Rates from 2018/19 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs

- Indexation uplifts on retained Business Rates of 3.2% for 2018/19, a further 3.6% for 2019/20 and a further 3.0% for 2020/21 in line with forecasts from the Office for Budget Responsibility which in total yields £3.3m

- Cost Pressures in Adult Social Care of £7.1m

- Other cost and inflationary pressures to £12.7m covering all pay and prices

- An assumption of a steady state for all budgets

86. As previously described, the fundamental aim of the MTFS is for in-year expenditure to equal in-year income. The proposed Savings Requirements for the new 3 year period are described below have been set to accord with that aim and also with the principle of starting to restore the Council's General Reserves over time.

£19m Deficit - Next 3 Years

2018/19	2019/20	2020/21
£7.5m	£7.0m	£4.5m

RESERVES - 2016/17 & FUTURE FORECASTS

87. In General, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.

88. In accordance with Best Practice, a review of the Council's reserves and balances has been undertaken as part of the budget process. The review considers the Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the Council's risk profile. It is considered, given the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £5.0m.

89. The statement below gives details of the General Reserves in hand at 1 April 2016, together with the proposed use of reserves in 2016/17 and 2017/18 arising from the 2016/17 and 2017/18 Budget proposals contained within this report. The forecast balances from 2018/19 onwards **assume that the £19m savings requirements set out in the previous section are achieved according to the profile described.**

General Reserves Forecast - 2016/17 to 2020/21

Financial Year	Current Year £m	Budget 2017/18 £m	Forecast 2018/19 £m	Forecast 2019/20 £m	Forecast 2020/21 £m
Opening Balance	7.3	9.6	6.0	5.5	5.9
In Year Surplus / (Deficit)	2.3	(3.6)	(0.5)	0.4	1.1
Forecast Balance	**9.6**	**6.0**	**5.5**	**5.9**	**7.0**

90. The approved MTFS, set out the need to restore General Reserves and the proposals for the Revised Budget 2016/17, Budget 2017/18 and proposed future Savings Requirements (amounting to £19m) for 2018/19 to 2020/21 will achieve this aim in a fashion that is both gradual but also does not give rise to any sizeable spike in savings requirements over the period.

91. In addition to General Reserves, the Council has established a Transformation Reserve of £1m. This reserve was established as one of the Council's primary vehicles to deliver savings. Often, transformation schemes aimed at significant cost reduction will be of a scale and complexity that require up front resources, especially if they are to proceed at pace. The reserve will provide a mechanism to ensure any such financial obstacles to delivery are minimised.

92. It is anticipated that due to the nature and scale of some of the savings proposals within the Adult Social Care Portfolio, that there will be a need to provide up-front funding from this reserve to support their delivery. Once determined, a report will be submitted to the Executive for approval.

93. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save" and "Invest to Save" schemes is vital to the success of the MTFS and the Council's future Savings Requirements. Accordingly, a strategy for its replenishment is a necessity but the need to minimise the savings requirements is paramount. The Savings Requirements

for the Council in 2017/18 and 2018/19 at £7.5m per annum are such that any planned contributions (which would require these Savings Requirements to increase accordingly) would likely push those Savings Requirements to levels that put essential Council Services in jeopardy and expose them to serious risk. It is therefore proposed that, rather than a planned replenishment from a contribution from the Revenue Budget, a proportion of any underspendings at year end (after approved carry forwards) are transferred into the Reserve.

94. The Council maintains a number of other reserves, many of a modest nature, in order to provide for known liabilities in the future. These include:

- The Highways PFI Reserve
- Insurance & Risk Reserve
- Repairs and Renewals Reserve
- Business Rate Retention Reserve

95. For the Council to meet the overall aim of its MTFS, it is important to strike the optimum balance between its key drivers of:

- Delivering savings (income, efficiencies and service reductions) over a manageable period of time which is consistent with maintaining good quality essential services

- Provide sufficient funding for Spend to Save and Invest to Save initiatives through the Council's Transformation Reserve

- Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position

- Maintaining General Reserves at levels that ensure strong financial resilience and financial health

To support this aim and ensure that maximum resources are available for the delivery of necessary savings, it is proposed that any underspendings for 2016/17 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer determined by the S.151 Officer.

<u>Statement of the Section 151 Officer in Accordance with the Local Government Act 2003</u>

96. Section 25 of the Local Government Act 2003 ("the Act") requires the Chief Financial Officer to report to the Council on the following matters:

- The robustness of the estimates included in the budget made for the purposes of setting the Council Tax; and

- The adequacy of proposed financial reserves

97. Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2017/18. Particular uncertainties exist regarding the extent of successful appeals and mandatory reliefs which affect Retained Business Rates, the ability of the Council to continue to make the necessary savings at the required scale and pace, the likely demographic cost pressures arising in demand driven services such as Adults and Children's Social Care and the extent to which new policy changes will be funded (most notably those arising from the Care Act). All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.

98. A minimum level of revenue reserves must be specified within the Budget. The Council must take full account of this information when setting the Budget Requirement.

99. Should the level of reserves fall below the minimum approved sum of £5.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose a spending freeze until a balanced budget is approved by the Council.

(a) <u>Robustness of the Budget</u>

100. In setting the Budget, the Council should have regard to the strategic and operational risks facing the Council. Some of these risks reflect the current economic climate and the national issues surrounding local authority funding levels.

101. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.

102. Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail from paragraph 83 and use the following sources as their evidence base:

- Government funding as set out in the provisional settlement for 2017/18 to 2019/20

- A "no growth" assumption for Retained Business Rates on the basis that any income arising from growth will be offset by both appeals and reliefs

- An assumption that the current rateable value will be reduced by 4.9%, based on Government estimates of appeals arising against the 2017 rating list

- Increases in Council Tax based on what is likely to be acceptable and in particular that the Council will continue to take advantage of the flexibility to tax for Adult Social Care at 3% in 2017/18 and 2018/19

- Inflation on Retained Business Rates and prices in accordance with inflation estimates from the Office for Budget Responsibility

- Provisions for anticipated national policy changes arising out of the Care Act based on the Isle of Wight Council's share of "relative need"[4]

- Specific provisions for increases in demand for both Adult's & Children's Social Care based on current trends

- A general provision for (as yet) unknown budget pressures

- Prudential borrowing requirements based on approved Capital schemes

- Revenue contributions to capital based on estimates of future needs

- Balances and contingencies based on a risk assessment of all known financial risks

103. Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement is medium and above. Savings proposals will also be subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

104. The most volatile budgets are those of Adult's and Children's Social Care. Budget provision has been made available to cover these risks both directly within the Service Budget as well as within the Council's overall contingency provision.

105. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.

106. Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential over or underspend is taken promptly and quarterly budget monitoring reports will continue to be presented to the Executive.

107. Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular basis to ensure that the Council complies with the concepts of Affordability, Prudence, and Sustainability. The Council can only consider Prudential

[4] Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

Borrowing for "Spend to Save Schemes", as it is currently unaffordable for any other purpose given the forecast budget deficits in 2018/19 and future years.

108. Future years' budgets will be particularly challenging due to continued funding reductions and uncertainties. The Council's forecasts plan for a savings target of £7.5m in 2018/19, £7.0m in 2019/20 and £4.5m in 2020/21.

(b) <u>The Adequacy of Proposed Financial Reserves</u>

109. The Council's General Reserves have been proposed at levels that are consistent with the Council's financial risks over the medium term and take account of the level of the Council's Corporate Contingency as well as other earmarked reserves that are set aside for risk events such as the Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.

110. Reserves provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends and enable the Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.

111. The level of General Reserves held will be higher than the minimum level required. This approach is in accordance with the approved MTFS in order to "smooth out" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The position will continue to be reviewed and reported to Members on an annual basis.

112. The Transformation Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives, Feasibility Studies and redundancy costs and currently stands at just £1m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any underspendings, transfers from other reserves no longer required or alternatively from the Revenue Budget in future years.

113. The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.

114. The Council's contingency provision for 2017/18 has been set on a risk basis at £2.9m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will be exercised tightly.

115. At the proposed levels, the Council reserves are sufficient to accommodate the Council's financial risks and maintain the Council's overall financial health.

CAPITAL PROGRAMME 2016/17 TO 2021/22

116. The Capital Programme is a vital component of the Council's Medium Term Financial Strategy. It is proposed that the Council's overall Capital Strategy has 3 core aims as follows:

(i) A Medium Term Strategy:

- Properly aligned funding and spending (i.e. does not apply future (longer term) funding to current (near term) investment), thus leaving known and unfunded obligations in the future

- Provides funding for future years for critical Capital Investment (ensuring that in years where capital resources are limited, critical investment can continue to be made)

- Revenue Contributions to Capital are considered to "smooth out" any significant gaps between capital investment needs and capital resources available

(ii) Maximise the Capital Resources Available and the flexibility of their application:

- Setting capital funding aside for "match funding" opportunities where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding

- Periodic review of contractually uncommitted schemes against newly emerging capital investment priorities

- Avoidance of ring-fencing of capital resources, except where statutory

- Use of Prudential Borrowing for "Invest to Save" Schemes

(iii) Targeted Capital Investment (prioritised categories):

- **Category 1 -** Programmes of a recurring nature that are essential to maintain operational effectiveness

- **Category 2 -** Specific schemes that:
  - Have a significant catalytic potential to unlock the regeneration of the Island
  - Are significant in terms of the Council strategies that they serve
  - Are significantly income generating or efficiency generating
  - If not implemented would cause severe disruption to Service delivery

117. As described in the MTFS, the strategy is to maximise the capital resources available and then target the investment of those resources to those areas that will both stimulate the Island Economy and improve the Council's overall financial position.

118. A comprehensive review of the Council's Capital Programme has been undertaken with the aim of maximising the capital resources available. This strategy was approved to enable the opportunity to re-assess previous priorities with current priorities, allowing each to compete with each other for funding, maximise the opportunity to make savings/increase the funding base and ultimately protect public services.

119. The review of the Council's Capital Programme has been completed and the following actions taken in arriving at the available capital resources:

- All contractually uncommitted capital schemes which are relying on non ring-fenced funding have been withdrawn from the Capital Programme but are considered as new bids for the available capital resources now available

- Any non statutory ring-fencing of capital resources has been removed

- All schemes that were previously approved to be financed from Prudential Borrowing have been reviewed and considered against the statutory guidance, where the guidance was met the prudential borrowing remained intact but where it was not financing from borrowing has been replaced with funding from capital receipts

- All underspendings against the approved Capital Programme have been brought into resources available and all overspendings have been funded from the resources available

- All capital receipts have been "pooled", including the ASDA capital receipt, and future capital receipts have been relied upon to the extent that there has been a decision to make the asset surplus to requirements

120. In determining the overall capital resources available, a small contingency has been retained to mitigate the risk of capital receipts and grants being lower than anticipated and some funding has been held back to meet unavoidable increases in costs to approved schemes and to support match funding bids for additional external funding from both the Solent Local Enterprise Partnership (LEP) and national initiatives such as the £2.3billion Housing Infrastructure Fund which is due to be announced later this year.

121. The Sources of Capital Funding available to the Council are broadly categorised as follows:

(i) Corporate Capital Resources - including all non-ringfenced capital grants (e.g. Local Transport Plan, Education Basic Need and School Condition Funding) , capital receipts and revenue contributions

(ii) Ring-Fenced Funding - including School's Devolved Formula Capital, Community Housing Fund and some S.106 funding

(iii) Funding Passported to the Better Care Fund - this includes Disabled Facilities Grants funding which, whilst non-ringfenced, does have to be allocated to the Better Care Fund and prioritised by the Council and the Isle of Wight Clinical Commissioning Group

(iv) Prudential Borrowing - borrowing for capital schemes which meet the Prudential Code and its associated "tests" of Affordability, Sustainability and Prudence; essentially Invest to Save Schemes

Corporate Capital Resources

122. The Corporate Capital Resources available amount to £16.7m. The scale of the resources available for allocation in 2017/18 is exaggerated by the remaining value of the ASDA Capital Receipt. In "normal" times, the annual value of Corporate Capital Resources available would amount to circa £5m per annum with an expectation from Central Government that amounts allocated for Education (circa £1.5m p.a) should be allocated for School Condition and School Places. Furthermore, there is an obligation from the Department for Transport to retain a Local Transport Pan.

123. In "normal" times therefore, it might reasonable be estimated that the Corporate Capital Resources available will amount to circa £2m to £3m unless assets of substantial value are sold. It is of the utmost importance therefore that the Council uses the £16.7m of available Capital Resources in a way that both protects the Council's core essential services over the medium term but is also targeted at income generation and regeneration to improve the overall financial position of the Council and Island Economy.

124. The proposals for the use of the Council's Corporate Capital Resources are set out in Appendix D. They comprise a balanced set of proposals which:

- Ensure the medium term resilience of essential core services
- Transform services, including investment into more appropriate and cost effective accommodation for Adult Social Care clients through Supported Living arrangements
- Provide investment to acquire strategic employment sites for the Island
- Support key transport infrastructure to improve access to Newport as well as contributing to overall business productivity
- The continued rationalisation of Council Buildings to reduce costs and improve efficiency

125. The proposals funded from Corporate Capital Resources in Appendix D will, in accordance with the MTFS, provide the necessary operating capacity that

the Council requires giving time for its other savings initiatives to be implemented.

Ring-fenced Funding

126. Ring-fenced funding which is governed by the terms and conditions of the associated grant or contract have been incorporated within the Capital Programme at Appendix E. Of particular note is the inclusion of £1.56m for a Community Housing Fund which is intended to support affordable housing provision.

Funding Passported to the Better Care Fund

127. The Better Care Fund is a central government initiative which creates a pooled budget arrangement between the Council and the Isle of Wight Clinical Commissioning Group. The grant funding for Disabled Facilities Grants of £1,584,113 is received by the Council but is required to be pooled within the Better Care Fund (BCF). Through the local BCF planning process, the Disabled Facilities Grant can be invested in broader strategic capital projects however, the statutory duty on local housing authorities to provide aids and adaptations under the DFG to those who qualify will remain.

128. It is proposed that the following schemes as described in Appendix D are considered by the Council and the Clinical Commissioning Group through the BCF process as bids against the £1.58m of funding and that they prioritise and determine the funding for those schemes accordingly:

- Disabled Facilities Grants
- Housing repair and well-being grants (crisis works and adaptations outside of the remit of Disable Facilities Grants)
- Critical Lifeline Equipment (to support clients living in their own home)
- Lifting equipment (for clients that suffer a fall)

Prudential Borrowing

129. The Medium Term Financial Strategy approved in October 2016 by Full Council included the establishment of Commercial Property Acquisition Fund of £100m. Accordingly, this is now proposed as part of the Capital Programme. It is aimed at maximising return but recognising that the safeguarding of public funds is of paramount importance and the Council's first priority.

130. The Commercial Property Acquisition Fund is proposed for approval in principle at this stage since, to properly safeguard public funds, such acquisitions must be made within a strategy and framework which manages the risk exposure of the Council. It is proposed therefore that the Director of Finance (S.151 Officer) will bring forward a Commercial Property Acquisition Strategy to the Council in the near future with a recommended approach to the following:

- The overall size of the portfolio

- The typical range of asset sizes
- The asset types
- The covenant strength
- The sectors of the economy within which assets should be acquired and their diversification
- The geographic diversification of the portfolio, including strategic growth locations.

131. The Capital Programme 2016/17 to 2021/22, including all proposed new schemes is set out in Appendix E for approval.

Future Capital Obligations, Priorities and Aspirations

132. Whilst the proposals for Capital Investment contained within this report provide a good foundation to secure the Council's financial viability for the medium term, the Council will face future obligations of a statutory nature as well as wish to commence the development of its future capital investment priorities.

133. Known obligations and aspirations, in line with the MTFS, for future Capital Investment once further capital resources become available include:

Statutory Obligations:

- Additional extensions / additions to school in the primary sector in order to provide for additional school places

- Provision of additional Disabled Facilities Grants

- Requirements to improve road safety, disabled access and air quality

Improving the Island Economy:

- Further development of key employment sites such as Kingston Marina and Island Technology Park

- Regeneration of Newport Harbour

- Coastal protection schemes to protect homes and businesses

- Improvements to road transport infrastructure as a means of supporting new business growth generally as well as the protection of the tourism economy (e.g. repairs to Undercliffe Drive, extension of cycle routes and the coastal amenity)

Public Service Transformation:

- Co-location of Health and Social Care services to provide more integrated service for residents and improve cost effectiveness

- Further Extra Care facilities for Adult Social Care clients

- Use of technology to provide greater personal independence for those with care needs

STRATEGIC CONTEXT

134. The Council's Budget for 2016/17 and 2017/18, the level of Council Tax and Capital Programme 2016/17 to 2021/22 represent the Council's detailed plan for 2017/18 and set the direction for the medium term. They are set within the context of the Council's recently approved Medium Term Financial Strategy.

CONSULTATION

135. The proposals set out in this Strategy have been prepared in consultation with the current and previous Executive and the wider members of the Independent Group, Conservative Group, UKIP and Independents.

136. The Portfolio savings amounts proposed within this report will inevitably impact on service provision. Appendix C describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix C can be altered, amended or substituted with an alternative proposal following appropriate consultation.

137. An Island-wide budget consultation took place during December and January to help inform how to make £20m of savings over the next 3 years and levels of acceptable Council Tax. The consultation took the form of a questionnaire which was also supplemented by a series of public meetings with residents and stakeholders. The Scrutiny Committee will also review the proposals contained within this report and have the opportunity to make their representations to the Council.

FINANCIAL / BUDGET IMPLICATIONS

138. All of the financial implications arising from the recommendations are contained within the body of the report and its appendices.

LEGAL IMPLICATIONS

139. The council will need to set a lawful and balanced budget and Council Tax level for 2016/17 by the statutory deadline. In developing any proposals for budget changes the necessary equality impact assessments and any consultation processes will need to be followed.

140. Section 106 of the Local Government Finance Act 1992 makes it an offence for a councillor in council tax arrears (with at least two months unpaid bills) to vote at a meeting of the council where financial matters relating to council tax are being considered. It is also an offence if any such councillor present, who is aware of the arrears, fails to disclose that they are in arrears of council tax. Members must

therefore ensure that if they have such arrears, that they disclose this to the meeting.

EQUALITY AND DIVERSITY

141. The council has to comply with Section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief and marriage/civil partnership). An equality impact assessment is attached at Appendix G.

PROPERTY IMPLICATIONS

142. The property implications contained within this report seek to improve the sufficiency, condition and efficiency of the Council's existing property estate. Proposals for land acquisitions are intended to provide sites for regeneration and employment and will only be purchased after full and proper due diligence. Potential new build proposals will also be the subject of a full financial appraisal and proper due diligence.

OPTIONS

143. The proposed Budget for 2016/17 and 2017/18, associated Savings Requirements, use of General Reserves and the Capital Programme have been prepared in accordance with the Council's recently approved Medium Term Financial Strategy. These proposals are presented as a cohesive and interrelated package of measures aimed at providing the maximum opportunity to meet the financial challenge faced by the Council. The options available within a cohesive Financial Strategy are:

A. In respect of the Revenue Budget 2017/18:

(i) Approve the recommendations set out in this report

(ii) Reduce the proposed increase in Council Tax and increase the level of savings noting that every 1% reduction in Council Tax will require an increase in savings of £727,200

(iii) Increase the use of General Reserves used in 2017/18 and reduce the level of savings accordingly, acknowledging that in doing so the level of savings in 2018/19 and future years will increase providing an uneven profile of savings which is contrary to the recently approved Medium Term Financial Strategy

(iv) Amend the allocation of Savings Requirements between Portfolios by reducing savings in one or more Portfolios and providing replacement savings of equivalent value in one or more other Portfolios

(v) A combination of options (ii) to (iv) above

(vi) Set a Council Tax at a level above 1.99% for General Purposes and undertake a local referendum

B. In respect of the Capital Programme 2016/17 to 2021/22 as set out in Appendix E:

(i) Approve the recommendations set out in this report

(ii) Amend the proposed "New Start" Capital Schemes by reducing / deleting proposed Capital Schemes and replacing with alternative Capital Schemes of equivalent value

(iii) Amend the proposed "New Start" Capital Schemes by reducing / deleting capital schemes and retaining the amount of Corporate Capital resources available for future Capital Programmes

RISK MANAGEMENT

144. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's recently approved Medium Term Financial Strategy. The strategy provides both structure and direction to achieve the financial challenge in a way that is aligned with the Council's corporate objectives and minimises cuts to essential services.

145. The key risk is that the Council does not approve a Revenue Budget for 2017/18 and a Capital Programme that conforms to its Medium Term Financial Strategy and as a consequence the approach to cost savings / additional income/funding is disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services. Furthermore, that proposed amendments relating to reductions in the level of Council Tax or increases in the use of General Reserves are "unbalanced" which ultimately compromise the financial health and resilience of the Council and as a consequence jeopardise the future of Council Services.

146. The robustness of the Budget and adequacy of reserves is described in the section entitled "Statement of the Section 151 Officer in Accordance with the Local Government Act 2003".

147. Key risks relating to the Capital Programme are that any amendments to the proposed programme delete or reduce operationally essential schemes which have the potential to close buildings from which Council Services operate. Alternatively, that amendments that remove schemes of a cost avoidance, income generating or regeneration nature are removed or reduced which could compromise the future financial viability of the Council and delivery of essential services.

EVALUATION

148. Option 1 is recommended. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's recently approved Medium Term Financial Strategy and is consistent with the Council's Corporate Plan. In particular:

- It provides for a "smoothing" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives at pace aimed at increasing income / funding and reducing costs and providing time for "alternative to cuts" initiatives to take effect pending the Government's "Fairer Funding" review in 2019/20

- With an Adult Social Care Precept at 3%, it provides a degree of stability for Adult Social Care Services on the Island which otherwise would be put at risk

- An increase in Council Tax of 1.99% for General Purposes avoids further cuts to essential services to residents and improves the funding base for the future

- Improves the overall financial resilience of the Council

- Ensures that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- Maximises the Capital Resources available to the Council for investment over the medium term balanced across essential services, regeneration and invest to save purposes

RECOMMENDATION

149. It is recommended that the Council approve the following:

(a) The revised Revenue Budget for the financial year 2016/17 and the Revenue Budget for the financial year 2017/18 as set out in the General Fund Summary (Appendix A)

(b) Any underspendings for 2016/17 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer to be determined by the S.151 Officer

(c) Any variation between the provisional and final Local Government Finance Settlement for 2017/18 be accommodated by a transfer to or from General Reserves

(d) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold[5] for 2017/18 announced by Government (as calculated in Appendix B)

(e) That the level of Council Tax be increased by a further 3.0% beyond the referendum threshold (as calculated in Appendix B) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £2,182,200 is passported direct to Adult Social Care

(f) That the amounts set out in Appendix B be now calculated by the Council for the financial year 2017/18 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992

(g) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Parish and Town Council precepts and amend the calculations set out in Appendix B accordingly.

(h) The savings proposals for each Portfolio amounting, in total, to £7.5m for 2017/18 and continuing into future years as set out below:

Portfolio / Service	**Savings Proposal**	
	£	**% Budget**
Adult Social Care & Public Health (Adult Social Care)*	3,084,100	6.6%
Adult Social Care & Public Health (Public Health)	397,000	5.8%
Contract Management & Car Parking**	889,300	20.8%
Environment, Fire & Local Engagement (Environment)	14,000	0.7%
Environment, Fire & Local Engagement (Fire & Rescue Service)	350,000	5.3%
Planning, Tourism, Recreation & Culture	437,100	7.3%
Regeneration, Housing & Transport	103,000	9.6%
Resources & Children's Services (Children's Services)	1,196,200	4.7%
Resources & Children's Services (Resources)	1,029,300	8.3%
Grand Total	**7,500,000**	**6.7%**

*** Excludes the additional funding passported through the Adult Social Care Precept of £2.2m and additional funding for the Care Act of £0.2m.**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 3.8%**

(i) Directors be instructed to start planning how the Council will achieve the savings requirements of £19m for the 3 year period 2018/19 to

5 Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

2020/21 and that this be incorporated into Service Business Plans

(j) The minimum level of Revenue Balances as at 31 March 2018 be set at £5.0m to reflect the known and expected budget and financial risks to the Council

(k) Members have regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in paragraphs 96 to 115

(l) The Capital Programme 2016/17 to 2021/22 set out in Appendix E which includes all additions, deletions and amendments for slippage and re-phasing

(m) The "Funded Schemes" as described in Appendix D be reflected within the recommended Capital Programme 2016/17 to 2021/22 and be funded from the available Corporate Capital Resources

(n) The "Financed Schemes" as described in Appendix D are approved in principal, reflected within the recommended Capital Programme 2016/17 to 2021/22 and financed from Prudential Borrowing but subject to the approval of a Commercial Property Investment Strategy setting out the risk based parameters within which such acquisitions should take place

(o) The allocation of £1,584,113 of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2016/17 to 2021/22

(p) The Prudential Indicators relating to the Capital Programme as described in Appendix F

(q) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council

(r) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)

150. It is recommended that the Council note the following in respect of the Council's Budget:

(a) The Revenue Budget 2017/18 as set out in Appendix A has been prepared on the basis that the 3% tax increase for the "Social Care Precept" (amounting to £2,182,200) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the full costs of the new National Living Wage and demographic pressures

(b) In the event that the additional flexibility of the "Social Care Precept" and associated 3% tax increase (amounting to £2,182,200) is not taken, then further savings will need to be identified

(c) In general, any reduction from the overall 4.99% Council Tax increase proposed will require additional savings of £727,200 for each 1% reduction in order for the Budget 2017/18 to be approved

(d) The Revenue Forecasts for 2018/19 onwards as set out in paragraphs 83 to 86 and Appendix A

(e) The estimated Savings Requirement of £19m for the three year period 2018/19 to 2020/21, for financial and service planning purposes, be phased as follows:

Financial Year	**In Year Savings Requirement £m**	**Cumulative Saving £m**
2018/19	7.5	7.5
2019/20	7.0	14.5
2020/21	4.5	19.0

(f) The Transformation Reserve held to fund the upfront costs associated with Spend to Save Schemes and Invest to Save Schemes holds a very modest uncommitted balance of £1.0m and will only be replenished from an approval to the transfer of any underspends at year end

(g) The Council Tax base for the financial year 2017/18 will be **52,137.1** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

(h) The Council Tax element of the Collection Fund for 2016/17 is estimated to be a surplus of £555,124 which is shared between the Isle of Wight Council (90.1%) and the Police & Crime Commissioner (9.9%)

(i) The Business Rate element of the Collection Fund for 2016/17 is estimated to be a deficit of £1,800,000 which is shared between the Isle of Wight Council (50%) and the Government (50%)

(j) The Retained Business Rate income[6] for 2017/18 (excluding "Top Up") based on the estimated Business Rate element of the Collection Fund deficit as at March 2017, the Non Domestic Rates poundage for 2017/18 and estimated rateable values for 2017/18 has been set at £19,502,700

[6] Including the Collection Fund deficit of £900,000, S.31 Grants of £2,114,100 but excluding the "Top Up" grant from Government of £12,365,400.

APPENDICES ATTACHED

151. The following appendices are attached:

- Appendix A - General Fund Summary
- Appendix B - Council Tax 2017/18 (calculated by the Council for the financial year 2017/18 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992)
- Appendix C - Indicative Savings 2017/18
- Appendix D - New Schemes starting in 2017/18
- Appendix E - Capital Programme 2016/17 to 2021/22
- Appendix F - Prudential Indicators 2017/18 (Capital Programme)
- Appendix G – Equality Impact Assessment

BACKGROUND PAPERS

152. The following background papers have been relied upon in preparing this report.

a. The Council's approved Medium Term Financial Strategy can be found at:

https://www.iwight.com/Meetings/committees/mod-council/24-2-16/Paper%20B.pdf

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